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United States  
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# **South Carolina Client Integrity Program Evaluation Report**

## **October 1998**



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## South Carolina Client Integrity Program Evaluation Report

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**October 1998**

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## EXECUTIVE SUMMARY

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) funded an Electronic Benefits Transfer (EBT) Client Integrity Program (CIP) demonstration and evaluation for South Carolina. The overall demonstration objectives were to “deter fraudulent misuse of the EBT card and to restore integrity to the FSP.” South Carolina’s objectives for the CIP demonstration were —

1. establish operational procedures that support client integrity with EBT;
2. identify benefit misuse by clients; and,
3. deter fraudulent misuse of the EBT card through the disqualification process and by assisting other government agencies.

The evaluation objectives were to examine how well the demonstration objectives were met. Exhibit ES-1 provides a timeline of pertinent activities that occurred during the evaluation.

### Exhibit ES-1: CIP Timeline

Activity	Date
Grant Application for the CIP was Awarded	October 1995
EBT was Implemented Statewide	December 1995
CIP Demonstration Evaluation Commenced	February 1996
Investigators and CIP Coordinator were trained	February 1996
First referral was received for the CIP	March 1996
Changes in Welfare Legislation Effective	September 1996
Expansion of CIP Coordinator Responsibilities	January 1997
Change in CIP Hearings Process	June 1997
CIP Demonstration Evaluation Completed	September 1997
The Automated Detection System was Fully Implemented	December 1997

**Source:** Evaluation of the CIP Demonstration, June 1996 to September 1998.

One of the anticipated benefits of converting food stamps to EBT is the value of having transaction data available for systematic analysis. This has proven to be very effective for retailer integrity initiatives due to the level of documentation and detail available through the relatively large volume of transaction data. Although EBT transaction data profiles were not automatically identified to detect recipient misuse, it was available for investigative purposes.

For recipients, shopping habits vary widely and a comparable volume of transaction data is not always available. The South Carolina CIP produced an organized and repeatable disqualification process to identify benefit misuse by recipients. However, a key-limiting factor to this program during the evaluation period was the lack of an automated detection system for data extraction, analysis, and reporting. Now that the State/Federal Agency Monitoring (SAM) system is operational, continuation of the demonstration with the requirement for another evaluation should provide additional results. South Carolina should continually evaluate inconsistencies within the SAM system, identify new/changing misuse profiles, consider adding statistical analysis abilities to the SAM system, and maintain control of the system within Department of Social Service (DSS).

The basis of the CIP evaluation was a set of research questions that focused on the CIP procedures, variations in performance, and implications for a national recipient monitoring program. Conditions that restricted how and to what extent the CIP evaluation was conducted are identified in Section 2 of this report as issues and limiting factors. These items included: 1) no new prevention activities were used during the CIP, 2) the automated system for misuse detection (i.e., SAM system) was not fully operational, 3) the referral log for tracking cases was poorly maintained, and 4) adequate pre-EBT data was unavailable.

Section 3 of this report describes the four CIP procedural phases: 1) Prevention, 2) Referral, 3) Investigation, and 4) Adjudication. Performance variations from the CIP demonstration are identified in the details of the evaluation results. For example, these variations do not address differences between geographic locations or field offices across the State because the CIP was in essence implemented consistently across the State.

Evaluation results of the South Carolina CIP demonstration are positive. Although South Carolina did not establish operations significantly different from other States, operational procedures were established to support an EBT recipient integrity program. The State did use recipient referrals to identify benefit misuse, but the CIP demonstration did not have any value-added methods or tools for generating new referrals on its own. Finally, the CIP demonstration did disqualify recipients and assist other government agencies with EBT integrity efforts.

However, no positive conclusions about the deterrent effect can be drawn from this final result because prevention techniques were not measurable during this evaluation.

Three general recommendations for the CIP evaluation, which would be applicable to other states, are presented in this report. Consistent with the original demonstration objectives, the recommendations are as follow:

1. States should ensure operational procedures, such as investigations and adjudications of referrals, are streamlined for maximum process efficiency.
2. States should automate misuse detection and establish recipient monitoring procedures to methodically and consistently assess EBT transaction data for misuse patterns.
3. States should establish various preventative measures and evaluate the deterrent effect of these measures for recipient misuse.



## **1. INTRODUCTION**

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) funded an Electronic Benefits Transfer (EBT) Client Integrity Program (CIP) demonstration and evaluation for South Carolina. The South Carolina Department of Social Services (DSS) integrity initiative provides possible approaches to EBT recipient monitoring. Although the demonstration incorporated one process for monitoring, this process provides several activities that may independently, or combined with others, provide approaches to recipient monitoring. An evaluation of these activities will assist FNS in determining whether State agency capabilities to perform these activities, in connection with the implementation of EBT systems, are feasible. As EBT usage expands toward national implementation, there will be increased interest in possible alternatives and refinements to current integrity/compliance activities in the Food Stamp Program (FSP).

### **1.1 Objectives**

The overall goal of the CIP is to deter fraudulent misuse of the EBT card and to promote integrity to the FSP. For both the demonstration and evaluation, “fraudulent misuse of the EBT card” is defined as any intentional program violation (IPV) committed by the recipient. This includes, but is not limited to, Food Stamp trafficking and does not mean that the recipient had to maliciously defraud the State in order to be classified as intentional.

South Carolina’s objectives for the CIP demonstration were —

1. establish operational procedures that support client integrity with EBT;
2. identify benefit misuse by recipients; and,
3. deter fraudulent misuse of the EBT card through the disqualification process and by assisting other government agencies.

The objective of the CIP evaluation was to examine how well the entire State of South Carolina met their CIP objectives during the evaluation period of March 1996 through September 1997.

## 1.2 Scope

The CIP evaluation assessed three areas of research, including:

1. The process of the South Carolina initiative, including the State's monitoring of EBT food stamp recipients.
2. Possible causes for variations in performance.
3. Potential implications national EBT implementation might have on recipient integrity monitoring.

During early evaluation of research questions, it was determined that a four-phase model was appropriate and directly applicable to the CIP demonstration for evaluation purposes. The four phases were drawn from the overall approach to recipient integrity, which comprises Prevention, Detection, Investigation, and Adjudication.

## 1.3 Report Overview

This report is organized into a series of sections providing the following information:

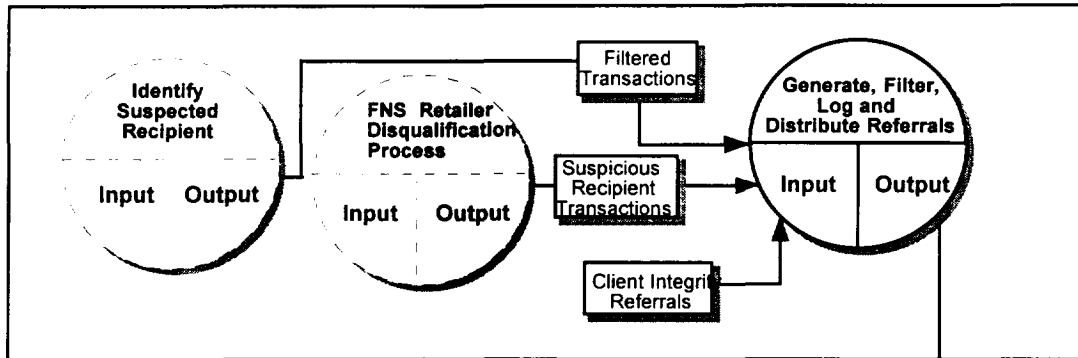
- **Section 1: Introduction** — defines the CIP evaluation scope and report organization.
- **Section 2: Issues and Limiting Factors** — identifies conditions that restricted how and to what extent the CIP evaluation was conducted.
- **Section 3: Process** — describes the Prevention, Referral, Investigation, and Adjudication phases of the CIP.
- **Section 4: Evaluation Results** — summarizes key points related to the CIP process, explains variations in the process, and describes implications associated with how well the CIP met original objectives.
- **Section 5: Recommendations** — provides a set of recommendations for FNS based on the evaluation results.
- **Appendix A: Acronyms**

## **2.0 PROCESS**

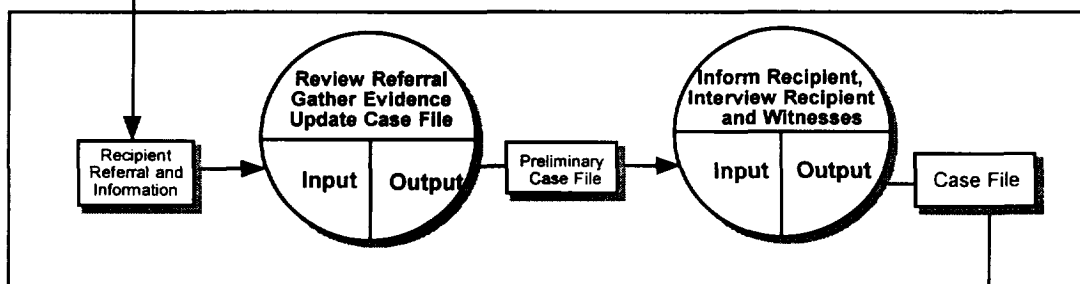
Prior to EBT implementation, there was no formal process or procedure for monitoring recipient behaviors. If a recipient was identified by the community for possible misuse, a CEWs would discuss the suspected act and the ramifications of misuse. Otherwise these cases were not investigated. Recipients were detected, investigated and adjudicated based on evidence of criminal charges or over Issuance of benefits. Criminal charges and over issuance cases that were determined to be IPV's were adjudicated in the same way as adjudications in the CIP. EBT has allowed the DSS to monitor recipients' shopping patterns and to determine whether misuse is occurring by reviewing transaction data once a recipient is referred. EBT has enabled the DSS to create a formal process to investigate misuse and disqualify recipients. Since pre-EBT disqualification's were based on criminal activity and over-issuance and were intended to produce claims, and EBT disqualification's are based on transaction data and strictly intended to ensure integrity in the FSP, few comparisons can be made between the two procedures.

This section provides comprehensive descriptions for each of the four CIP phases.  
Exhibit 1 provides an overview of the activities associated with these phases.

### Identify Suspected Recipients and Generate Referrals



### Investigate Suspected Recipients



### Ajudicate Case and Disqualify Guilty Recipients

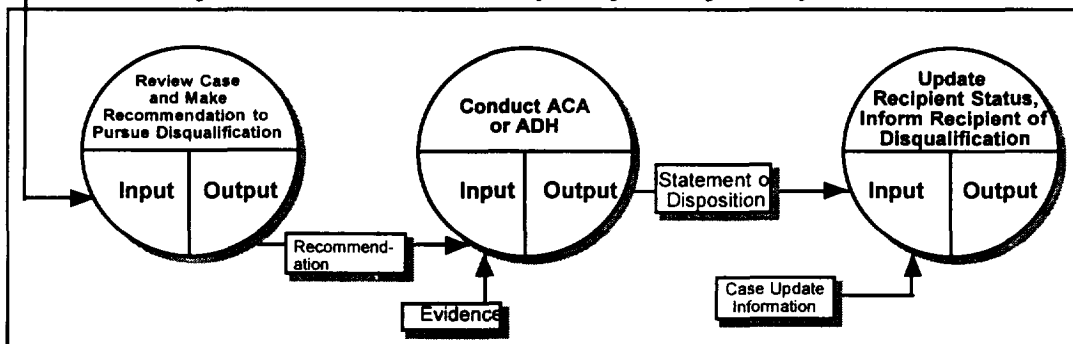


Exhibit 1: Major CIP Activities

## **2.1 Prevention**

Although it has been noted that South Carolina implemented no new or different procedures to aid in misuse prevention, this section is provided for completeness and consistency. To prevent EBT misuse, South Carolina had implemented a two-step approach consistent with USDA regulations for all States: 1) perform background checks for all applicants of the FSP, and 2) conduct a training program explaining the EBT program and the consequences of EBT misuse.

When a recipient submits an application for FSP eligibility, a background check is conducted. Each applicant must provide a Claims/Eligibility Worker (CEW) with a social security card and a driver's license or photo identification. The CEW types the applicant's social security number into the Client History Information Profile System (CHIPS) to verify the applicant's identity and to ensure that the social security number is not already receiving benefits and that this number belongs to the applicant. Several of the CEWs interviewed during this evaluation indicated that their office sometimes requires other documentation (utility bills, court orders showing child support, bank account information, proof of property [e.g., mortgage], and any earned income or salary information [e.g., U.S. veteran or retirement information]) to verify information such as address, social security number, financial obligations, and income. This information is entered into the Income and Eligibility Verification System (IEVS). IEVS is able to verify the applicant's identity, residency, wages, and indicates whether the applicant is receiving benefits from the energy assistance program. Additionally, IEVS contains a national disqualification screen providing information regarding previous disqualifications for that applicant from other States.

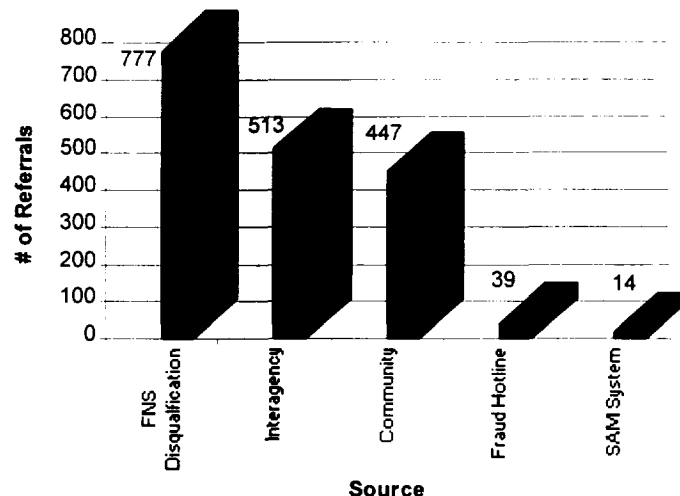
When a recipient is eligible to receive benefits from the FSP, s/he is required to go through an EBT training program. In the training class, the recipient is 1) required to view a 14 minute video emphasizing EBT card maintenance; 2) informed of what to do if their EBT card is lost or stolen; and 3) provided with various other maintenance tips. In addition to learning about EBT card maintenance, the recipient practices using a "dummy" EBT card at a demonstration point of sale (POS) terminal. Upon completing POS training, the recipient is issued a card and

chooses a personal identification number (PIN). The recipient is also required to sign a card receipt form with an attached addendum regarding EBT misuse, including a liability and penalty warning. The card receipt form is a written agreement stating that the recipient has viewed the video, has gone through the EBT training, and understands his/her rights and responsibilities as a FSP recipient. The addendum addresses the ramifications of EBT misuse and requires the recipient to sign the addendum directly under the discussion of misuse.

## **2.2 Referral**

During early evaluation of research questions, the four-phase model (Prevention, Detection, Investigation and Adjudication) was determined appropriate. Initial evaluation plans, however, were to differentiate “detection” from “referral”. A referral is defined as *any* source-identifying recipients suspected of misuse (e.g., tips from the hotline, identification by automated fraud detection system(s), FNS recipient referrals from retailer disqualifications). Detection means a *qualified* referral (e.g., identification by automated fraud detection system(s), FNS recipient referrals from retailer disqualifications) with a higher probability of recipient disqualification based on factual evidence.

The receipt of a referral initiates an investigation by identifying suspect recipients who may be guilty of EBT misuse. During the evaluation South Carolina was not utilizing an automated client integrity monitoring system to identify misuse. Referrals were received from other sources. All misuse referrals are handled in the same way except when FNS requests an expedited investigation to assist in disqualifying a retailer under investigation. In this case, the process is still the same with the exception that the Investigator places a higher priority on the expedited FNS referral to investigate quickly. Exhibit 2 identifies the number of referrals by source.



### **Exhibit 2: Referrals by Source**

**Source:** South Carolina Client Integrity Program Evaluation Report, June 1998.

Several persons are involved in the referral process: CIP Coordinator, Supervisor - Food Stamp Policy Unit, CIP Investigators, FNS staff, workers staffing the Fraud Hotline, and the community. Processing a referral consists of five steps:

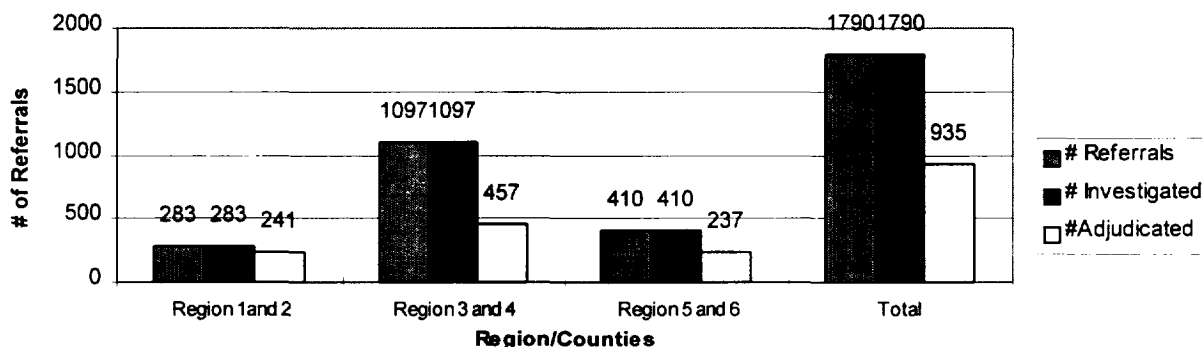
1. Collect referrals from various sources (e.g., community, interagency staff, EBT processor help desk, DSS Fraud Hotline, and FNS Retailer Disqualifications).
2. Determine type of suspected crime and group all "misuse" referrals together. This screening process is conducted by the CIP Coordinator and the Supervisor of the Food Stamp Policy Unit.
3. Enter misuse referrals into the automated log system (if referral is already in log, go to step 5). All non-misuse referrals (e.g., over-issuance cases) should be forwarded to the appropriate State office.
4. CIP Coordinator disburses referrals to CIP Investigators based on region.
5. Prevent referrals from progressing to the "Investigation" phase if the
  - referral has previously been logged,
  - disposition was determined, and/or
  - transaction data is incomplete or not up to date.

When determining whether to disburse referrals to Investigators, transaction data is especially valuable. EBT transaction data provides the date, amount and location of each purchase by a recipient. This information can be used to determine shopping patterns or identify

misuse. Because the transaction data provides such detailed information on each transaction, it can be used as evidence of misuse. The CIP Coordinator ensures all available information/evidence is provided to the Investigators whether it includes transaction data or not. Each CIP Investigator is responsible for determining the validity of each referral during the next phase.

## 2.3 Investigation

The purpose of the Investigation phase is to identify EBT misuse through transaction patterns and to use the transactions as evidence when contacting recipients who are suspected of misusing their EBT cards to make a determination about pursuing a disqualification. The Investigation phase of the CIP involves the efforts of four individuals: one CIP Coordinator and three CIP Investigators. Exhibit 3 provides information for each of the three areas the investigators were responsible along with statewide totals.



### Exhibit 3: Regional Investigation Results

Source: South Carolina Client Integrity Program Evaluation Report, June 1998.

When a CIP Investigator receives a referral with the associated transaction data, he or she reviews the data provided with the case file to identify suspicious transaction patterns to use as evidence to pursue a disqualification. Additional information may be gathered by the CIP Investigator from the available systems (e.g., CHIPS and the EBT vendor system). If a misuse pattern is identified, the CIP Investigator will send a letter to the suspect recipient; this letter may detail the transactions in question. The recipient is given 10 days to respond to the letter by



calling the associated CIP Investigator to discuss the case. If the recipient calls the CIP Investigator to discuss the case, the CIP Investigator interviews the client, either face-to-face or over the phone, by using a specific questionnaire. This questionnaire asks recipients if they are aware that DSS can monitor the amount and location where benefits are spent. The CIP Investigator also asks the recipient how she or he was aware the retailer would engage in EBT misuse and other detailed questions regarding the misuse.

In some cases, the CIP Investigators have kept cases open waiting for additional months worth of transaction data to help identify a misuse pattern. If the CIP Investigator determines that the suspect recipient is not misusing their EBT card, the case is determined to be unfounded and will be closed. There are two definitions for an unfounded case. First, a case may be determined to be unfounded if the referral does not result in sufficient evidence to pursue sending initial letters to the recipient. Second, a case is unfounded if it has gone through the Administrative Disqualification Hearing (ADH) process, but has not resulted in a decision against the recipient.

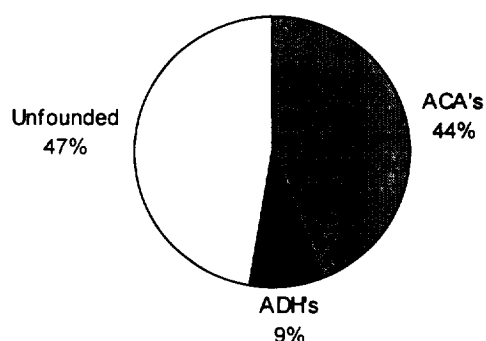
The CIP Investigator documents the recipient interview in a Statement and files it in the case file. Often, a recipient will sign an Administrative Consent Agreement (ACA) to waive their right to an ADH after this discussion. The described discussion informs the recipient that the transaction data provides concrete evidence, and also allows the CIP Investigator to determine whether intentional EBT misuse was conducted. If from the conversation the CIP Investigator determines that the suspicious patterns were actually ordinary purchasing patterns for that specific shopper, the case is determined to be unfounded. If a referral originated from an FNS Retailer Disqualification, the initial letter sent to the recipient includes an ACA. The recipient is given the option to call the assigned CIP Investigator or sign and return the ACA, admitting guilt without an interview.

In any case, if a recipient does not sign and return the ACA or call the CIP Investigator after the first letter, a second notice with a stiffer warning is sent to the recipient. This second notice includes an appointment date, with a time and location to discuss the possible misuse behavior. The second notice, for all referrals, also has an ACA attached allowing the recipient to

sign the ACA without further action. As with the initial letter, the recipient may contact the CIP Investigator to discuss the case at this point. If the recipient does not call DSS or sign and return the enclosed ACA, the case will proceed to an ADH, which is discussed in detail in the adjudication section of this report.

## 2.4 Adjudication

The adjudication process of the CIP is considered by South Carolina to be the most complex phases of the process. This phase involves several DSS employees and various steps to completely adjudicate a case. Individuals and groups involved in the Adjudication phase include CIP Investigators, the CIP Coordinator, the Claims Review Board, Claims/ Eligibility Workers,



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### Exhibit 4: Adjudication Results

**Source:** South Carolina Client Integrity Program Evaluation Report, June 1998.

Appeals Examiners, and the Hearing Committee. Adjudication consists of two distinct disqualification processes: the ACA and the ADH. Cases may be determined unfounded prior to an ACA or ADH, or as a result of one of these processes. Exhibit 4 shows the types of adjudication results relative to each other.

As discussed in the preceding section, the CIP Investigators usually send a letter with an ACA to each recipient suspected of misusing their EBT benefits. This letter explains that unless the ACA is signed and returned within 30 days of its first explanation (the first letter), judicial or administrative action will be considered. The ACA also specifies the length of the disqualification and its commencement date. Signing the ACA results in the waiving of a hearing and constitutes an admission of guilt. Until April 1997, the ACA form allowed the recipient to sign the ACA either admitting to the facts as presented or without admitting guilt. It was determined that allowing the recipient to sign the ACA without admitting to the facts as presented was not an effective

method of gaining evidence for FNS Retailer Disqualifications. Consequently, the ACA was changed to allow recipients to sign only if they agree to the facts as presented, although this is in violation of the Food Stamp Regulations 273.16(f)(1).

If the recipient signs the ACA, the case is presented to the Claims Review Board. Because the ACA has been signed, and the recipient is admitting guilt, the case can be processed quickly. The disqualification becomes effective the first day of the following month. Only one ACA has been overturned by the Claims Review Board. In that case, the Claims Review Board determined that the recipient who signed the ACA was unable to fully understand what he was signing and that the transaction data reflected normal shopping patterns for this individual. This ruling was based on the recipient's limited understanding of the ACA content. When the Claims Review Board has approved the signed ACA, it is forwarded to a CEW, to be entered in CHIPS, and to the CIP Investigator, to notify the CIP Coordinator of the disposition. The CIP Coordinator then enters the disposition into the automated referral log.

If the recipient does not sign either of the waivers, the CIP Investigator's next action is to proceed with a formal ADH. The ADH process consists of the appropriate CIP Investigator scheduling a hearing date with one of four Appeals Examiners. Each ADH is conducted by an Appeals Examiner over the phone with the Investigator and the recipient, if present, together at a different local office. This requires the recipient and Investigator to be alone in the same room on a speakerphone. The Investigator presents the evidence and the recipient is allowed to present his/her case. All participants have a hard copy of the evidence for review during the hearing. If the recipient is present, the hearing will take approximately 35 to 40 minutes; if the recipient chooses not to be present, the hearing will take only 20 minutes.

When the case is heard, the Appeals Examiner renders a decision. The decision is signed by the Appeals Examiner and is submitted to the Hearings Committee with a copy of the taped ADH to be reviewed and approved. The Hearings Committee is composed of an employee from Policy and Planning and an employee from County Technical Assistance and the Appeals Examiner. At least two of the three Hearings Committee members must sign off on the decision. When the decision has been signed, the CIP Investigator is notified of the decision;

and the CIP Investigator sends the disposition to the CIP Coordinator, who then enters it into the automated referral log. If the recipient is found guilty of EBT misuse, the CIP Investigator and a CEW are notified. The CEW records the disqualification in the CHIPS and the National Disqualification System via the IEVS interface and sends a letter to the recipient explaining the result of the ADH.

Before June 1997, there was only one Appeals Examiner for all CIP cases. Having only one Appeals Examiner proved to be inefficient due to the length of time it was taking for a case to be scheduled, heard, and adjudicated. Therefore, effective June 1997, three Appeals Examiners were added to the CIP adjudication process. Presently, an ADH is to be scheduled within 30 days of the conclusion of an investigation and heard within 30 days of its scheduling. The adjudication decision is to be presented within 30 days of the ADH date. Recipients are sent a letter notifying them of the disposition of their case. The actual disqualification is to take effect the first day of the following month (provided sufficient time is allotted to notify the recipient of the disqualification).

### **3.0 ISSUES AND LIMITING FACTORS**

Four factors influenced the initial four-phase model and the evaluation approach. However, each factor influences how the evaluation results are interpreted in relation to the CIP objectives. Each factor is presented below to aid in better understanding the evaluation results in subsequent sections of this report.

#### **3.1 No New Prevention Activities**

While a deterrent effect was anticipated for the CIP, nothing associated with the Prevention phase for the South Carolina CIP was different than most existing State programs/initiatives.

#### **3.2 The Automated Detection System was not fully operational**

The South Carolina CIP planned to update its Retailer Management System (RMS) to support an independent system for client monitoring, previously called the Client Integrity System (CIS). No independent CIS was ever delivered, but an enhanced RMS was developed. This overall system, the State/Federal Agency Monitoring (SAM) system, was intended to be used as a means to detect EBT misuse. Data collection activities for the program evaluation ended in the third quarter of 1997. The SAM system was not delivered in final form until the fourth quarter of 1997. Before that time period the SAM system was unable to weight/prioritize client transactions. Therefore, the CIS portion of the SAM system could not function as a detection tool during this evaluation. It was used, however, as a means to verify misuse identified by other sources.

The delay in delivering the CIS capability appears to have stemmed from miscommunication among offices/agencies within DSS. Also, the initial development budget required negotiation between offices/agencies because system development was beyond direct control of the CIP demonstration program office.

At the end of the third quarter of 1997, the SAM system was being designed to allow DSS to specify certain profiles over a specified period of time. The originally planned profiles were rapid and repeated, large dollar and even dollar transactions.

Based on these profiles and the frequency of occurrence, the SAM system was to provide a prioritized or weighted report of recipients meeting the specified profile(s) within the period of time the recipient was under review. During the evaluation period, the rapid and repeated profile was implemented for recipients. However, no weighting factor was applied; and the unsorted report, which was initially several hundred pages, was too large for the CIP Coordinator to review and assign high probability cases to CIP Investigators.

### **3.3 Poor Referral Log Use/Maintenance**

Initial CIP planning identified the need for a comprehensive referral log for maintaining information about each referral received by DSS. This tool would assist in resource management by identifying Investigator caseload, would prove to be a timely information source for quarterly reports, and should facilitate data collection for evaluation purposes. The information maintained in the referral log includes referral source, date of referral, Investigator assigned to the case, and disposition of the case.

DSS used information in the referral log to create quarterly reports. These reports provided FNS with the total number of disqualifications to date for the quarter and the demonstration, as well as the total savings. During the evaluation, however, it was realized that there were discrepancies between the referral log and the quarterly report totals. Because the referral log captured all the necessary information and was the source of information for the quarterly reports, the evaluation team used the referral log as its primary source of quantitative information.

### **3.4 Adequate Pre-EBT Data Was Not Available**

To compare how well certain aspects of the CIP demonstration met objectives, South Carolina attempted to gather quantitative data about the Food Stamp program prior to EBT. This information was limited in scope and did not provide sufficient detail for comparison with post-EBT data. For example, a complete number of recipient disqualifications resulting from misuse prior to EBT were not available on a yearly or monthly basis for any kind of meaningful comparison. Through interviews with State staff, the evaluation team attempted to gather qualitative data. This approach also resulted in very little pre-EBT data. Because the data was inadequate for evaluation purposes, this evaluation does not provide any pre-EBT to post-EBT analysis.

## **4.0 EVALUATION RESULTS**

Section 3 of this report provided an overview of the CIP demonstration procedures. This section provides some insights to variations in performance within the CIP process, among the CIP staff. Variations do not address differences between geographic locations or field offices because the CIP demonstration project was in essence implemented consistently across the State.

Operational procedures were established to support an EBT recipient integrity program for EBT. The State did use recipient referrals to identify benefit misuse, but the CIP demonstration did not have any value-added methods or tools for generating new referrals on their own. Finally, the CIP demonstration did disqualify recipients and assisted other government agencies with EBT integrity efforts. However, no positive conclusions about the deterrent effect can be drawn from this final result because prevention techniques were not measurable during this evaluation. The following four subsections provide supporting details for the Stated results of each CIP demonstration objective.

### **4.1 Operational Procedures**

This section provides CIP lessons learned. The South Carolina CIP demonstration successfully implemented operational procedures that support client integrity with EBT. The details of how the CIP demonstration progressed from eligibility determination to misuse referral to investigation and finally, to adjudication, were presented in Section 3.

Many of the procedures used in the CIP demonstration proved to be the same or similar procedures used in other States. The CIP benefited from information provided by other States on how to approach many of the procedural issues. For example, representatives from Maryland initially provided CIP demonstration staff with an understanding of how ADH waiver letters were sent to recipients. Some recipients in Maryland were suspected of participating in misuse activities with retailers who had been removed from the FSP for trafficking. This experience had led to the State having to issue ADH waiver letters.



Although several States assisted South Carolina in establishing client integrity procedures, experience provided the CIP with effective methods specific to their demonstration. The following bullets summarize lessons learned by South Carolina during the CIP demonstration:

- The CIP Investigators noted that transaction misuse patterns were continually changing and recipients were learning which transactions led to an investigation. For example, even-dollar transactions are widely recognized as misuse patterns by retailers and recipients familiar with EBT; therefore, this pattern is no longer widely observed.
- Some CIP Investigators look at the time and location of EBT card usage. The time of day the card was used can help determine whether the EBT recipient has a job, while the location of the transaction can help determine whether the EBT recipient is living in a different location than that recipient reported. If a recipient is utilizing a card only before 9 a.m. and after 6 p.m. Monday through Friday, the recipient may have a job. If the recipient is shopping in one region and is noted as living in another location, this is also deemed suspicious behavior and is investigated by DSS.
- SC-DSS learned early in the CIP that sending the transaction data to the recipients with the ACA allowed recipients to create stories or alibis before discussing the case with the CIP Investigator. The transaction data allowed the recipient to discern the types of patterns for which the CIP Investigator was looking, and what type of information the CIP Investigator receives. Although the CIP demonstration staff believed not sending transaction data to be more effective, Department of Individual and Provider Rights (DIPR) requires that DSS send transaction data with an ACA in order to provide the client with the evidence that may lead to the recipient's disqualification resulting from signing the ACA.
- The CIP adjudication process used only one Appeals Examiner before June 1997 to conduct each hearing. Because only one Appeals Examiner was available, a backlog was building in the adjudication process. DSS realized that to efficiently disqualify recipients adjudged guilty of EBT misuse, it was necessary to employ more Appeals Examiners and to rework the process to include telephone ADHs.

- Investigators have adapted various techniques to identify EBT misuse. One CIP Investigator noted that she likes to look at transaction records and try to discover new misuse patterns. One pattern that the Investigators discovered is a small transaction followed by a high dollar transaction. Also, some CIP Investigators go into the stores and examine retailers' stock to determine whether a recipient could legitimately make high dollar purchases in the store. Investigators may also frequent certain stores to observe whether misuse is occurring. Although Investigators want to have information on the retailers in their territory, it is equally important that the retailers not know who the Investigators are. Anonymity allows the Investigator to continue this effort. Therefore, it is important that DSS, not the individual Investigator(s), establishes a relationship with the retailers regarding potential misuse.
- Investigators indicated that a strong working relationship with the law enforcement community was important both in receiving referrals and increasing the visibility of integrity monitoring activities among law enforcement personnel and the community. A couple of the CIP Investigators who forged working relationships with officers in their regions educated the officers on how to recognize situations where EBT misuse may be occurring. For example, law enforcement could assist in situations in which an arrest is made and the suspect is found to have several EBT cards with different recipient names.
- Knowledge of the territory for which an Investigator is responsible assists in identifying misuse, as well as building a case for disqualification. For example, if an Investigator notices high dollar transactions from a certain store and knows that the named retailer is a convenience store, the Investigator can extrapolate that potential misuse is occurring.
- It is important that the CIP Investigators maintain good coordination with DSS Headquarters and their assigned field offices. CIP Investigators maintain contact with DSS Headquarters to receive and follow up on referrals and for any necessary updates regarding the CIP. Each Investigator has expressed inability to visit every field office. The field offices with which the CIP Investigators have the most contact provide them with more referrals and better quality referrals. These field offices are more familiar with the objectives of the CIP, the information that is needed for a referral, and the process to

follow to submit a referral. The relationship that develops between the Investigators and the field offices appears to have a direct relationship to the number and quality of referrals received. This correlation could be considered a direct cause for the variation in CIP participation at the county level.

- Each CIP Investigator follows the same investigative procedures; however, the Investigators use different techniques and approaches to assist them in their investigations. Both the CIP Investigator's personality and background influence the investigative approach used. For example, some CIP Investigators take Statements over the phone, whereas others only take Statements from the recipients in person. Some CIP Investigators read from the EBT/Client Integrity Questionnaire, whereas others try and make the client feel like they are just asking questions for clarification, as opposed to accusing him/her of misuse. One Investigator's approach to investigating a misuse suspect was considered innovative. The Investigator took a newspaper clipping about an FNS retailer disqualification to an interview with a suspect recipient to demonstrate the severity of EBT misuse and convey the government's position on the subject.

According to the CIP Investigators, the most successful investigations result from tracking the EBT transaction histories of the recipients for 3 to 6 months, conducting face-to-face interviews with the recipients; and questioning the client versus accusing the client. Although no measurable differences were observed, these differences in techniques and approaches may cause variations in the outcomes of referrals. A larger set of Investigators under a controlled test could provide more information for quantitative analysis.

## **4.2 Program Effectiveness**

One of the original goals for the CIP demonstration was to ascertain whether collecting some fraction of recipient claims associated with a disqualification could financially sustain the CIP. This option is not currently available to the States, but the prospect provided a clear evaluation framework.

To ascertain the cost effectiveness of the CIP demonstration, expenses and savings were analyzed during the evaluation period. Expenses were captured only for the direct costs and staff assigned to the demonstration cost center. This included the CIP Coordinator and three Investigators. Efforts of the Claims Review Board, the Hearings Committee, and the Appeals Examiners were not calculated into the cost associated with the CIP process. Costs associated with these roles were not captured for two reasons. First, it appeared that these individuals and the role they performed were a fixed State expense. Second, compared to other States, South Carolina performs an additional review using the Claims Review Board. Therefore, the evaluation did not include in any cost calculations associated with the cost of *supporting* tasks/staff. Savings were defined as the benefit amount that would be surrendered by a recipient for the disqualification period. This definition is synonymous with claims for overissuance or other IPVs.

According to South Carolina DSS, it would be very difficult to perform CIP activities with limited or no funds from FNS. The belief is, if limited funds were available, the CIP would be moved to the Recipient Claims Program. The importance of the CIP would be minimized if relocated due to the fact that the CIP would not be providing claims. South Carolina believes if a portion of the savings generated from the CIP were fed back into the program, the State would be able to fund CIP independently. Allowing South Carolina to use a portion of the funds saved by the CIP would produce financial incentives for the program. Specifically, CIP would recognize that as more recipients are disqualified, more savings result, which in turn would increase the amount of funding for the CIP. On the other hand, if CIP was funded strictly through the savings, CIP employees may attempt to disqualify recipients unjustly.

Regardless of South Carolina's belief, the numbers do not appear to support the assertion that a *portion* of the funds saved will financially sustain the CIP. In order for the CIP to be funded independently by the savings generated, all of the savings would need to be fed back into the program. For example, basic numbers collected for the evaluation period showed a total cost of \$232,567 and a total savings of \$195,045.70, majority resulting from the last year of the demonstration. These raw numbers would appear to prove that the fully operational CIP would

barely break even if the savings funded the program. This funding would not allow for any changes or additions to the CIP, as DSS Stated was necessary. Therefore, the CIP is not cost effective. However, the program appeared to exhibit several trends that would indicate a learning curve possibly causing the program to not be cost effective during our evaluation. For example, monthly recipient referrals grew steadily for the first few months while cases handled per Investigator did not appear to keep pace.

The existence of a learning curve appears to be a factor in the effectiveness of the program, however, the CIP process could be made more effective and efficient by changing some of the CIP procedures. The recommendation section of this report provides general suggestions for streamlining operational procedures and incorporating an automated detection system to generate quality referrals. One calculation, performed on data only from the last few months of the evaluation period, showed an average number of monthly disqualifications to extrapolate to 275. Multiplying this projection by the average savings per recipient per month (\$66.21) yields a potential yearly savings of \$218,493. At this point, a potential for collecting claims and realizing savings that will sustain the CIP seems unlikely. However, improvements to the overall CIP procedures and better projects for future benefit recipients may provide opportunities in the future.

Based on BAH's contacts with the States of Maryland, Texas, New Mexico, and South Dakota several tables were generated to compare the overall integrity approach of other States to the approach used in South Carolina for the CIP. Detailed procedures and organizational relationships/involvement were not differentiated during our research. An extensive level of detail was requested from other States to fully compare with the South Carolina CIP project. Nevertheless, each State provided what was available and did not use any additional resources to produce the level of detail for which we requested. Therefore, specific comparison of many aspects of the CIP has been conducted.

As part of the CIP evaluation, an informal and concise comparison was made to other States' fraud initiatives. None of the States that we contacted were conducting any formal

evaluation of their process. Therefore, results and numbers for comparison purposes are only as good as the State interest and data collection methods.

The data for Maryland provided a solid reference point for the South Carolina demonstration over the period of evaluation. Both States were receiving referrals primarily from FNS retailer disqualifications. Although total caseloads are different for these two States, it appeared that Maryland was able to handle more cases in general. The distinction grows when it is taken into account that Maryland did not have the dedicated resources like the three Investigators in South Carolina.

Total food stamp cases per state changes each month. To normalize numbers for comparison, a count of food stamp households in Maryland and South Carolina was used at a single point in time. FNS reports from December 1997 indicated Maryland as having 140,980 food stamp households while South Carolina had 139,180 households. Also, the total number of referrals was used to normalize numbers. Total referrals in South Carolina were 1,790 and Maryland had 31,510. The following table summarizes disqualifications for each State as a percentage of food stamp households and total referrals. However, the data provided for South Carolina was for six "test" months based on total number of disqualifications per month (i.e., data for SC is not for the months shown).

	Oct. 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	Mar. 1997
<b>MD Total – as percent of households</b>	0.160%	0.100%	0.098%	0.073%	0.094%	0.131%
<b>SC Total – as percent of households</b>	0.023%	0.022%	0.021%	0.024%	0.034%	0.028%
<b>MD Total – as percent of referrals</b>	0.714%	0.454%	0.438%	0.327%	0.422%	0.587%
<b>SC Total – as percent of referrals</b>	1.786%	1.674%	1.618%	1.842%	2.623%	2.176%

#### **Exhibit 5: State Comparison Table**

**Source:** South Carolina Client Integrity Program Evaluation Report, June 1998.

As this normalized data shows, Maryland was processing a much higher percentage of its total food stamp households. All the referrals in Maryland were from the urban areas of

Baltimore County. When considering the percentage of referrals to recipients, it would appear that on a Statewide basis, South Carolina is doing a more effective job of identifying and adjudicating misuse cases. In either case, the total percentage of disqualifications to total food stamp households appears to be extremely small

### **4.3 Identify Recipient Misuse**

The CIP demonstration successfully processed referrals that were identified by other sources such as recipient referrals received from FNS, the community/hotline, and through interagency staff. The CIP was unable to use the automated tool as originally planned to identify any referrals during the demonstration project. Without this capability to detect misuse from EBT transaction data, the CIP could not comprehensively and consistently perform recipient *monitoring*. For the purpose of this report, monitoring refers to the ability to regularly observe recipient's transaction patterns and determine whether misuse may be occurring.

Before EBT and CIP implementation, virtually no recipient misuse referrals were received. Providing recipients with coupons was similar to providing recipients with cash; there was no way to track the food stamps once they were issued. The South Carolina CIP provides a process to follow up on referrals and eventually monitor client transactions. Monitoring transactions, based on patterns that have been identified as potential EBT misuse can assist the State in identifying suspicious transactions. The current SAM system was initially established to flag and weight potential retailer EBT misuse patterns. This system has been updated to include the ability to detect recipient EBT misuse. The recipient monitoring system was unable to weight transaction data during the evaluation period; therefore, it was not used as an automated detection tool. Since the CIP evaluation cut-off date for data collection, the SAM system has been delivered with full capability. The transaction data provided by this system is now used in conjunction with referrals received from other sources and data provided by CHIPS and the administrative terminal in the investigation of suspect recipients.

The implementation of the SAM system may cause an increase or decrease in the number of referrals detected in the CIP. With the SAM system identifying and weighting suspicious transactions, the CIP will receive referrals (or detections) from the tool in addition to the referrals received from other sources. The tool is also intended to be used as a filtering mechanism for referrals currently received from other sources. The use of the SAM system may result in more or fewer referrals for investigations; however, it will increase the quality of each referral assigned to an CIP Investigator, which may in turn increase the percentage of successful adjudications. The SAM system is also planned to have the capability to add new profiles identified throughout the demonstration period.

#### **4.4 Deter Misuse**

The procedures implemented for the CIP demonstration provided no new deterrent activities. Most existing State EBT programs or misuse initiatives use the same eligibility determination procedures and recipient training approach. Although a couple of novel deterrent actions were identified, they were not consistently used or extensively applied to support an evaluation. An example is the previously noted use of a newspaper clipping regarding an FNS retailer disqualification to demonstrate the severity of EBT misuse and convey the government's position on the subject.

The CIP demonstration did successfully disqualify recipients during the evaluation period. With disqualifications occurring, a deterrent effect may exist due to recipients "spreading the word on the street." However, because there were no repeat offenders identified during the evaluation period, the deterrent effect was unmeasurable. Continuing to disqualify recipients and retailers should persuade recipients that the government will not tolerate EBT misuse.

Two prevention activities that were reviewed during the evaluation included EBT recipient training and interagency coordination/cooperation. The CIP focused on potential improvements in these two areas. Although direct deterrent effects could not be measured in



these areas, there was a general belief that improvements would foster a reduction in EBT misuse.

During our evaluation period, the training video did not include a discussion on the ramifications of EBT misuse. EBT misuse discussion was presented by the trainers or just read by the trainer from the standard waiver terminology. To resolve the issue of misuse being omitted from the training video, the signature position on the card receipt form was moved to just below the misuse Statement. The evaluation team was told by South Carolina that the training video was expected to be updated to include discussion on Temporary Assistance to Needy Families (TANF) benefits. When that occurs, information regarding EBT misuse will be considered for incorporation into the video. The CIP staff was designing a poster campaign for implementation when the evaluation period ended. This, too, was considered a possible deterrent mechanism and could potentially affect recipients, retailers, and third parties who participate in misuse, but who are unaware of the penalties involved.

The CIP staff assisted with some retailer disqualifications by expediting recipient case reviews and generating retailer referrals from recipient interviews. This interagency coordination/cooperation supported information exchange among FNS, field offices, DSS, and other agencies. Each State and federal agency has its own process for communicating with another agency; however, these methods of communication may not suit the desires of every party. For example, DSS has requested to be updated on retailer referrals it has submitted to FNS for investigation. FNS is unable to provide updates throughout the investigation but does provide DSS with a report of disqualified retailers.

The CIP demonstrated that a strong working relationship between FNS and States is important to an integrity program's success. The general understanding, at both the State and federal levels, is that as each government agency handles its area of interest (i.e., federal — retailer; state — recipient) there will be a greater level of FSP integrity if information is exchanged between the involved agencies. For example, the transaction data used to remove a retailer from the FSP is often the same data used to disqualify a recipient. There is no reason to

have duplicate systems to analyze this data. There is, however, a different set of transaction patterns that should be analyzed to identify misuse for retailers than that used for recipients. Working relationships can be fostered through training sessions, seminars, conferences, and working groups within the State, across States, and at the Federal level. These relationships can aid communications and understanding by providing each stakeholder with the proper information and resources necessary to ensure integrity in the FSP.

## 5.0 COROLLARIES

Three general recommendations from the CIP evaluation are presented in this section for other States to consider. These suggestions are related to the CIP demonstration objectives presented in Section 1 of this report, but are applicable to any State planning a client integrity program. The recommendations are —

1. States should ensure operational procedures, such as investigations and adjudications of referrals, are streamlined for maximum process efficiency.
2. States should automate misuse detection and establish recipient monitoring procedures to methodically and consistently assess EBT transaction data for misuse patterns.
3. States should establish various preventative measures and evaluate the deterrent effect of these measures for recipient misuse.

The following subsections provide further detail on each of these recommendations.

### 5.1 Ensure Efficiency of Operational Procedures

Section 3 discussed the operational procedures developed by South Carolina for the CIP demonstration. Section 4 discussed the lessons learned by the State and the cost effectiveness of the program. As these lessons learned indicate, the program is continually realizing potential areas for improvements. It is important that other States learn from this effort to establish a cost-effective and efficient process. Three actions are provided below as methods for ensuring an efficient integrity process.

- **Ensure quality control for the adjudication phase** — A State implementing a client integrity program should incorporate two methods of adjudication. These methods should consist of signing a waiver to a hearing (ACA) or proceeding to a disqualification hearing (ADH). Each method should also have a quality control step incorporated to ensure fairness in the process. South Carolina established an Appeals Unit, Hearings Committee, and Review Board. As the Review Board is used to review signed ACAs where the recipient has admitted guilt, it may not be a necessary entity. However, the use of the Appeals Unit and Hearings Committee ensure that sufficient evidence is available

prior to disqualifying a recipient via a disqualification hearing. A State incorporating a client integrity program should provide the proper channels to ensure fairness in the adjudication process.

- **Standardize Investigator's authority** — The basis to determine whether a case has sufficient evidence to proceed with an investigation should be standardized. As the Investigators may be best qualified to determine whether a case moves forward in the integrity process, there should be specific guidelines to ensure that each case is investigated consistently across the State. A State should also implement a standard for what constitutes a pattern in that State (e.g., one suspicious transaction vs. three transactions, or 1 month of suspicious data vs. 3 months) that will lead to an investigation and potential disqualification.
- **Maintain a referral log** — Our evaluation team found the automated referral log used by South Carolina to be very helpful in analyzing the program. A State implementing a client integrity program should consider maintaining a similar log. Such a log could record investigation assignments, case dispositions, and could be used to provide demographic information and a means for statistical analysis of trends. This log would assist in managing investigator assignments as well as determining what regions (or counties) have a higher number of misuse cases, potentially allowing the State to prioritize cases based on region. Also, it would allow the State to evaluate what means of adjudication is most successful as well as what method of detection results in a higher percentage of adjudications.

## **5.2 Automate Misuse Detection and Establish Monitoring Procedures**

To best identify and prioritize suspicious EBT transaction patterns, an automated system to flag and weight recipient transactions and filter data is recommended. Before implementing such an automated misuse detection tool and monitoring procedures, several recommendations should be considered:

- **Utilize a detection tool as a means to verify referrals from other sources** — When a referral comes in from other sources, a coordinator can check the reports from the automated system to determine whether misuse was identified through the tool. If misuse has been identified, this case should have a higher priority. If misuse was not identified through the tool, then the referral should be ranked lower on the list. It appears that if the tool identifies misuse and another source identifies misuse, the referral is more likely to lead to a disqualification.
- **Continually monitor and evaluate profiles and the progress/improvements of the automated detection system** — The State should regularly evaluate the automated detection system to ensure that each capability is working efficiently and effectively. It is important that inconsistencies be adjusted and documented when using such a system. The State should also consider using the investigative process to evaluate the effectiveness of different profiles and the weights associated with them in the system. For example, if the State determines that even-dollar transactions result in a higher percentage of disqualifications, it may want to consider weighting transactions matching that profile higher than transactions under another profile. As the recipients become aware of what profiles are resulting in disqualifications, they will change their patterns, which enable them to create new profiles. It is important that the State continue to evaluate the success of profiles in order to maintain awareness of changing patterns. Also, as these patterns change, the State will need to evaluate the success of these new profiles in order to assign a weight. The State will need to establish a consistent means of weighting each transaction within a profile.
- **Build in the ability to analyze data statistically** — The automated detection system would be an ideal tool to provide periodic statistical reports. This system could provide reports containing total number of detections per month, total number flagged from each profile, total number from each demographic region, as well as total number of detections provided by each referral source. The ability for the State to realize which profile, county, or source is resulting in the higher percentage of disqualifications would allow it to establish a means to better prioritize cases.

### **5.3 Evaluate Deterrent Effect of Various Preventative Measures**

As Stated in Section 3, South Carolina implemented no new or different procedures for misuse prevention. Our evaluation did not address the effects of the methods used to prevent or deter fraud because this was determined beyond the scope of this evaluation. However, evaluation of the effects of these activities would be beneficial for any State implementing a client integrity program. To fully evaluate deterrent measures, the State may want to evaluate how knowledge or awareness of one recipient's disqualification affects another recipient. It can be anticipated that when a recipient is disqualified, other recipients will learn about the disqualification through word of mouth. The effects of this method of publicity may be useful to evaluate to assist in developing effective deterrent activities. The State should ensure that procedures are sufficient to prevent actual or perceived violation of privacy or disclosure rights of disqualified persons.

The State may also assess training provided to retailers and recipients to assist in the implementation and evaluation of an awareness campaign. Assessing the training provided to retailers and recipients should include an evaluation of the training as a deterrent factor and an education tool. The evaluation should ensure that the training encourages a complete understanding of misuse and the ramifications of such activity. In conjunction with this evaluation, the State may want to consider interviewing repeat offenders to determine what would have prevented their misuse. This evaluation may assist the State in determining a means of reemphasizing the ramifications of misuse when a recipient is disqualified.

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One of the anticipated benefits of converting food stamps to EBT is the value of having transaction data available for systematic analysis. This has proven to be very effective for retailer integrity initiatives due to the level of documentation and detail available through the relatively large volume of transaction data. For recipients, shopping habits vary widely and a comparable volume of transaction data is not always available. The South Carolina CIP

produced an organized and repeatable disqualification process to identify benefit misuse by recipients.